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COMMUNITY ASSISTANCE PROGRAMS

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Neighborhoods Fund
Housing Venture Fund
Pre-Development Fund
Technical Assistance Fund

Guidelines
January, 1993

Massachusetts Housing Partnership Fund
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Boston, MA 02109
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Massachusetts Housing Partnership Fund

The Massachusetts Housing Partnership Fund (MHP Fund) supports the development and preservation of affordable housing through local public-private partnerships by providing staff assistance, professional technical assistance, pre-development loans, and permanent financing.

The MHP Fund is a quasi-public corporation which was established in 1985 with a \$33.5 million trust fund financed by the state's savings and cooperative banks. Continued funding is provided under Chapter 102, the Interstate Banking Act, which provides that certain banks or bank holding companies which acquire a Massachusetts bank must make nine-tenths of one percent of its assets in the Commonwealth available as a loan to the MHP Fund to finance low and moderate income housing. The MHP Fund is overseen by a seven-member board with representation from the banking community, state government and community leaders.

Since 1985 the MHP Fund has established and supported a network of 100 local housing partnerships located throughout the Commonwealth. These coalitions of civic leaders, lenders, and advocates have worked extensively with private developers to bring affordable housing to their communities. In recent years the partnerships have emphasized identifying municipally-owned land or buildings suitable for affordable housing development, and have worked with lenders to acquire bank-owned properties and to create new bank products such as affordable mortgages for low and moderate income homebuyers.

MHP Fund Community Assistance Programs

The MHP Fund offers its resources to projects that give low and moderate income persons greater access to the private housing market. Through four separate funds, the MHP Fund supports community-based initiatives that expand the supply of affordable housing. These funds provide professional services and financial support to local housing partnerships, municipalities, certain non-profit organizations, and for-profit individuals or organizations which are developing and restoring affordable housing. The funds are:

- * Neighborhoods Fund: seed monies to help cities develop and implement strategies which will stabilize and promote reinvestment in affordable housing in distressed neighborhoods;
- * Housing Venture Fund: loans for innovative demonstration projects;
- * Pre-Development Fund: loans to specific affordable housing development and preservation projects; and



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- * **Technical Assistance Fund:** advisory assistance for preliminary tasks associated with the development of affordable housing.

Community Assistance Program Requirements

In order to qualify for financial assistance from the MHP Fund, all proposals must meet the following standards:

- * ***Local Housing Partnership participation:*** The proposal must be endorsed and actively supported by the community through a local housing partnership. In communities where a partnership does not exist, the project sponsor must demonstrate a strong public/private partnership approach;
- * ***Evidence of Local Support:*** Where applicable, the MHP Fund expects that a municipality will contribute toward the successful completion of a project, including town-owned land, zoning relief, in-kind services, or other evidence of support for the project;
- * ***Low-Moderate Income Benefit:*** The proposal must demonstrate that the project or program will provide substantial benefit to low (below 50% of median income) and moderate (below 80% of median income) income households;
- * ***Feasibility:*** The proposal must demonstrate to the satisfaction of the MHP Fund that the project is feasible in all aspects and must not be excessively dependent on public subsidy;
- * ***Completeness:*** The application must be complete and thorough before it will be considered by the MHP Fund. Applications for loans for development projects must provide appropriate justification of the purchase price of the property.

In addition, proposals must meet the individual requirements for the fund from which assistance is being requested as described in the following pages.

ADDITIONAL INFORMATION

If you have any questions, or need additional information concerning these guidelines, please contact Janet Parsons or Robert Jenkins of the MHP Fund staff at (617) 338-7868.

NEIGHBORHOODS FUND

The City of Fitchburg is fighting to revitalize its Elm Street neighborhood by working with lenders and community leaders to stimulate reinvestment in its distressed housing stock. Working with \$40,000 from the MHP Fund, the City is mapping at-risk properties, identifying resources for acquisition and rehabilitation of the buildings, and initiating specific development projects.

Description

The Neighborhoods Fund is a new initiative of the MHP Fund that provides seed money for local efforts to combat neighborhood disinvestment. The program assists municipalities that have identified a distressed neighborhood and are prepared to take immediate steps to stabilize that neighborhood. Through the Neighborhoods Fund the MHP Fund is working with cities and towns to help identify and inventory neighborhoods that are experiencing urban disinvestment and to encourage stabilization through both private and public reinvestment. The Neighborhoods Fund monies are offered to initiatives which have the strong support of local officials, local non-profits and the banks. The MHP Fund will provide up to \$50,000 of Neighborhoods Fund monies to a community to provide staff and/or consultant assistance. Interested communities should consult the MHP Fund staff.

Appropriate Projects

Neighborhoods Fund monies may be used to inventory bank owned, distressed and/or abandoned properties and to devise strategies to rehabilitate these properties and restore them to full occupancy. Appropriate projects under this fund include:

- * Development of property-by-property disposition plan in targeted neighborhoods;
- * Project development and management;
- * Bank and regulatory agency negotiations for the disposition of REO properties;
- * Identification of rehabilitation/financing options;
- * Market development/buyer identification.

Who May Apply

Neighborhoods Fund monies are available to communities throughout the Commonwealth. Applications will be made available to a community after consultation with the MHP Fund staff.

Program Structure

- * The MHP Fund makes awards of up to \$50,000 to communities;
- * The project must be completed within two years;
- * Funds are typically disbursed in two equal amounts, the first immediately following the signing of an agreement with the MHP Fund, as discussed on page 13; the second after evidence of completion of mutually agreed-upon milestones is submitted to the MHP Fund;
- * Recipients will be required to seek reimbursement for the MHP Fund monies expended by recapturing funds from mortgageable costs associated with development projects that proceed as a result of the Neighborhoods Fund. For more information on municipal recipients, see page 13.

Application and Review Process

Application forms and detailed instructions are provided separately. It is recommended that prospective borrowers contact an MHP Fund staff member to discuss their projects before submitting an application. Applications are accepted at any time.

MHP Fund staff reviews all applications and makes funding recommendations to the MHP Fund Board at its regularly scheduled board meetings. The final approval and commitment of funds will be made by the Directors of the MHP Fund.

The Directors of the MHP Fund meet at six-week intervals. Applications must be received by MHP Fund staff a minimum of three weeks prior to the date of the next scheduled Fund board meeting in order for the application to be considered. Applicants should verify the MHP Fund board meeting schedule prior to submitting an application.

HOUSING VENTURE FUND

Nine Cape Cod banks have formed a lending consortium, establishing a \$8 million loan pool in support of affordable housing developments on Cape Cod. The Consortium received a Housing Venture Fund loan to pay for initial administrative and staff costs until it becomes self-supporting through fees earned from loans made to development projects.

Description

The Housing Venture Fund provides front money for innovative projects and programs that take risks to demonstrate new or better ways of developing and preserving affordable housing with minimal public assistance. Projects which address one of the following two housing objectives: leveraging private and federal financing and/or utilizing bank owned and distressed real estate, are eligible for Housing Venture Fund monies.

The maximum Housing Venture Fund loan is \$50,000. Projects which receive these loans are expected to become self-supporting after an initial start-up period.

Activities

To be considered for a Housing Venture Fund loan, projects must fall within one of the following two policy objectives:

Leveraging Private and Federal Financing: Funds may be used by community groups, local banks, insurance companies, or pension funds to create new private funding mechanisms for affordable housing. The objective is to design innovative programs to serve low and moderate income people and to leverage increased private sector funds for affordable housing. Appropriate activities include securing technical assistance to design innovative bank products, creating bank-supported lending pools for affordable housing, and creating innovative mechanisms for the use of pension and insurance funds for the development or preservation of affordable housing.

Utilizing Bank Owned and Distressed Real Estate: The MHP Fund is seeking to create affordable housing for low and moderate income people by taking advantage of an over-supply of housing in some markets. Funds are available for the

implementation of strategies that convert existing or recently constructed, unsold housing to affordable housing for low and moderate income families. Appropriate activities include the use of funds to assist in negotiations with lenders.

Who May Apply

The following are eligible to apply for Housing Venture Fund loans:

- * Local Housing Partnerships
- * Municipalities (see section on Municipal Recipients on page 13)
- * Non-profit corporations
- * Individuals/for-profit organizations

Loan Structure

- * The MHP Fund makes unsecured loans of up to \$50,000 to all borrowers;
- * The term of the loan is two years or when income is generated from the operation of the program developed using Housing Venture Funds, whichever first occurs. Specific repayment terms will be negotiated with applicants during the application review process;
- * In cases of public-private joint ventures, MHP Fund expects the private sector entity, either for-profit or non-profit, to assume responsibility for the loan;
- * Interest is charged to public or non-profit organizations at a rate of three percent at the time of closing, per annum during the term of the loan;
- * Interest is charged to for-profit entities at a rate of five percent at the time of closing, per annum during the term of the loan;
- * After the term, if the loan is not paid, interest accrues at the contract rate plus four percent until repayment;
- * The MHP Fund approves loan disbursement requests in phases, as a project proceeds, increasing disbursements in tandem with evidence of successful project development.

Review Standards

In addition to the general requirements set forth on Page 2 that all proposals must meet, applications for Housing Venture Fund loans are evaluated according to the following

standards:

- * *Innovation*: the proposal must offer new approaches to dealing with critical statewide housing issues described above,
- * *Replicability*: the project must have significant potential as a model for other communities, and
- * *Leverage*: the project must generate investment from the private sector and from public entities, such as the federal government.

Application and Review Process

Application forms and detailed instructions are provided separately. It is recommended that prospective borrowers contact an MHP Fund staff member to discuss their projects before submitting an application. Applications are accepted at any time.

MHP Fund staff reviews all applications according to the review standards described above, and makes funding recommendations to the MHP Fund Board at its regularly scheduled board meetings. The final approval and commitment of funds will be made by the Directors of the MHP Fund.

The Directors of the MHP Fund meet at six-week intervals. Applications must be received by MHP Fund staff a minimum of three weeks prior to the date of the next scheduled Fund board meeting in order to be considered. Applicants should verify the MHP Fund board meeting schedule prior to submitting an application.

PRE-DEVELOPMENT FUND

Assisted by a \$50,000 loan from the MHP Fund, the Newton Community Development Foundation (NCDF), together with Keen Development Corporation, converted the Warren School in Newton into 59 rental units, 21 of which are subsidized. The MHP Fund loan was used to pay for NCDF's share of the architectural expenses.

Description

The Pre-Development Fund is designed to support the acquisition, preservation, and development of affordable housing in the Commonwealth by providing pre-development assistance to projects that are ready to proceed. The purpose of the Pre-Development Fund is to further the production and preservation of low and moderate income housing throughout Massachusetts. The MHP Fund provides front end pre-development loans to specific development projects supported by local partnerships, working on their own or in joint ventures. The program is similar in nature to the MHP Fund-supported Front End Loan Program administered by the Community Economic Development Assistance Corporation (CEDAC) available to non-profit organizations in certain target areas of the state. The Pre-Development Fund generally serves recipients not eligible for CEDAC funds.

The MHP Fund will loan up to \$50,000 in Pre-Development Fund monies to a particular project.

Activities

Pre-Development Fund monies are used to promote the development and preservation of affordable homeownership or rental housing units. Qualified projects must be site specific and meet the MHP Fund's policy objective of using existing housing stock.

Given the present high vacancy rates and existing inventory of newly constructed housing and the need for rehabilitation of older dwelling units, new construction projects will be considered only if at least one of the following conditions apply:

1. The project undertaken is on city or town-owned land provided below its market value to the project;
2. The project is initiated by local officials and/or local housing partnerships;
3. A compelling public interest such as redevelopment of a distressed neighborhood exists.

In most parts of Massachusetts, the need for family housing generally exceeds the need for elderly housing. Therefore, funding for elderly housing projects is limited to the following circumstances:

1. The applicant can demonstrate that the need for elderly housing in the community is as great or greater than the need for family housing and,
2. The community has already provided housing for low- and moderate-income families or is already making diligent efforts to provide such housing.

While the MHP Fund prefers that a borrower be able to provide evidence of site control, it will consider applications where, despite the lack of site control, other factors such as financing commitments in place indicate that there is a strong likelihood that the project will go forward. Pre-Development Fund loans are provided as "front end" loans in the early stages of project development. Loans are made for specific mortgageable activities, including:

- * Architectural/engineering assistance
- * Initial development planning, including pro forma preparation
- * Legal assistance
- * Site plan development
- * Financial packaging/project workout plan
- * Project development and management**
- * Short term credit enhancement
- * Permit and application fees
- * Site option money

** Loans to cover project development and management costs are available to non-profit developers only who are not eligible for CEDAC funds and may not exceed \$10,000.

Gap financing is not an eligible use of the Fund.

Who May Apply

The following may apply for Pre-Development Fund loans:

- * Local Housing Partnerships;
- * Municipalities (see section on Municipal Recipients on Page 13);
- * Non-profit organizations (in situations only where MHP Fund assistance through CEDAC is not available);
- * Private, for-profit entities.

Loan Structure

- * The MHP Fund makes unsecured loans of up to \$50,000 to public entities such as municipalities and local housing partnerships and to non-profit corporations. (Particular requirements for municipalities resulting from limitations on municipal indebtedness are discussed on page 13);
- * If the applicant owns the property the MHP Fund will generally seek to secure the loan with the property;
- * The MHP Fund makes secured loans of up to \$50,000 to for-profit developers for projects that have the support of the local housing partnership or the municipality;
- * In cases of public-private joint ventures, the MHP Fund expects the private sector entity, either for-profit or non-profit, to assume responsibility for the loan;
- * The term of the loan will be negotiated with applicants during the application review process, but typically is the earlier of two years or the project's construction or permanent loan closing;
- * Loan recipients will be charged a fee of \$250 to cover the MHP Fund's legal expenses. This fee will be payable upon acceptance by the recipient of the terms of the loan as set forth in the commitment letter;
- * Interest at a rate of five percent at the time of the loan closing, per annum, is charged to non-profit organizations during the term of the loan;
- * Interest at a rate of seven percent, at the time of closing, per annum, is charged to for-profit entities during the term of the loan;
- * After the term, if the loan is not repaid, interest accrues at the contract rate plus four percent until repayment.
- * The MHP Fund approves loan disbursement requests in phases, as a project proceeds, increasing disbursements in tandem with evidence of successful project development;
- * Disbursements of committed funds are made after evidence of completion of a given service or activity is submitted to the MHP Fund.

Review Standards

In addition to the general requirements that all proposals must meet, as described on Page 2, applications for Pre-Development Fund loans are evaluated in accordance with the following competitive standards:

- * *Repayment schedule:* Projects must demonstrate a strong likelihood of timely repayment;
- * *Leverage of private funds:* Projects must generate significant investment from the private sector and from other public entities, such as the federal government; and
- * *Availability of other financing:* Applicants must demonstrate that alternative financing is not available.

In addition to the above requirements, applicants must submit a recent appraisal or other documentation satisfactory to the MHP Fund justifying the purchase price of the property.

Application and Review Process

Application forms and detailed instructions are provided separately. It is recommended that prospective borrowers discuss their projects with an MHP Fund staff member prior to submitting an application. Applications are accepted at any time.

MHP Fund staff review all applications according to the review standards described above, and will make funding recommendations to the MHP Fund at its regularly scheduled board meetings. The final approval and commitment of funds will be made by the Directors of the MHP Fund.

The Directors of the MHP Fund meet at six-week intervals. Applications must be received by MHP Fund staff a minimum of three weeks prior to the date of the next scheduled Fund board meeting in order to be considered. Applicants should verify the MHP Fund board meeting schedule prior to submitting an application.

ADDITIONAL CONSIDERATIONS APPLICABLE TO COMMUNITY ASSISTANCE PROGRAMS

Loan Forgiveness

Loans made under the MHP Fund's Community Assistance Programs will be due and payable by the recipient according to terms set forth in a Loan Agreement and a Promissory Note. However, should insufficient income be generated by a program established with Housing Venture Funds, or should a development project which receives Pre-Development Fund monies not obtain subsequent financing and is terminated as a result, and in the MHP Fund's sole judgement the recipient has made good faith efforts to obtain replacement financing or income and will be unable to repay the loan, then the loan will be forgiven.

Municipal Recipients

Due to limitations on municipal indebtedness, the MHP Fund does not require direct repayment of Community Assistance Program funds from cities and towns. However, the MHP Fund's intent is to make the monies revolve back to the MHP Fund wherever possible so that they may be disbursed again for future projects. Therefore, municipalities which receive Community Assistance Program funds are required to execute an agreement with the MHP Fund which commits the community to seek reimbursement for the MHP Fund monies expended. The community must agree to seek reimbursement when an affordable housing program or project funded through a Community Assistance Program generates income or obtains subsequent financing such as a construction loan or mortgage. Such recaptured funds will be used to provide additional Community Assistance Program monies to other projects.

TECHNICAL ASSISTANCE FUND

The Brockton Community Corporation (BCC) recently received technical assistance from the MHP Fund to evaluate a bank-owned four unit house in the city. The BCC's goal is to rehabilitate the property and create three larger units for families. Professionals hired by the MHP Fund will inspect the building, prepare rehabilitation cost estimates, and analyze the financial feasibility of the proposed project.

Description

The Technical Assistance Fund is designed to provide quick answers to communities, non-profit organizations, and for-profit developers in the early stages of an affordable housing development. This fund offers assistance with preliminary development tasks such as financial analysis and determining the rehabilitation potential of properties, or the development potential of town-owned land and buildings. The Fund also provides assistance in developing affordable housing programs in communities.

Under the Technical Assistance Fund, the MHP Fund provides professional assistance to assist local housing partnerships, community groups, non-profit corporations and, in some cases, for-profit developers in undertaking an affordable housing project. The Technical Assistance Fund is designed to maximize the cost-effective use of MHP Fund monies and to allow the MHP Fund to provide timely technical assistance for local efforts. No funds are disbursed to the community or organization, rather, the MHP Fund pre-qualifies professionals and then assigns them directly to a project in response to local requests.

The Technical Assistance Fund has two initiatives, First Look/First Option and Local Housing Partnership/Community Projects.

FIRST LOOK/FIRST OPTION INITIATIVE

The First Look and First Option initiative were designed by the MHP Fund to make it faster and easier for developers to purchase distressed properties and rehabilitate them as affordable housing. First Look and First Option are tools which may be used together on a project or separately.

First Look offers a rapid assessment of a building's potential for rehabilitation as affordable housing by providing professional services to determine financial feasibility, structural soundness, and to negotiate acquisition with a seller or a lender. Once a project has been approved, the MHP Fund will designate a pre-qualified professional to carry out the assignment.

The MHP Fund has created First Option, an agreement to secure for the buyer of a distressed property a 30 day period to determine the structural condition, rehabilitation cost, and financial feasibility of a property. First Option effectively takes the property off of the active market for a 30 day period which allows both the potential buyer and the seller to determine a financially feasible sale price.

Activities

This fund is designed to offer immediate assistance to developers and communities beginning to explore the feasibility of a particular property. Technical Assistance is provided only for projects which will result in the acquisition, preservation, or development of housing units or in direct services to low or moderate income persons. Appropriate activities include:

- * Initial feasibility analysis
- * Building inspections
- * Preliminary determination of property value
- * Preparation or negotiation of purchase and sale agreement
- * Rehabilitation cost estimates

Who May Apply

- * For-profit developers/contractors
- * Non-profit developers
- * Municipalities
- * Local Housing Partnerships

Program Financial Structure

The MHP Fund provides up to \$3,000 worth of professional assistance for individual properties to be evaluated under the First Look initiative and up to \$8,000 worth for a related cluster of properties, such as on one street or within a block. Assistance is provided to both for-profit and non-profit developers. A successful applicant will be required to sign an agreement with the MHP Fund that obliges the recipient to repay the MHP Fund from any future mortgage proceeds if the project moves forward.

Review Standards

- * Qualifications of the developer;
- * Feasibility of the project with minimal subsidy;
- * Likelihood of project success.

LOCAL HOUSING PARTNERSHIP/COMMUNITY PROJECTS INITIATIVE

This program provides immediate technical assistance to communities and partnerships that are exploring the feasibility of particular affordable housing projects or programs. The MHP Fund pre-qualifies professionals and then assigns them to specific projects in response to partnership or community requests.

A maximum of \$3,000 worth of technical assistance is provided by the MHP Fund for a particular project.

Activities

The Local Housing Partnership/Community Initiative is designed to offer immediate assistance to partnerships and communities to explore the feasibility of a particular housing project or program. Technical Assistance is provided only for projects which will result in the acquisition, preservation, or development of housing units or in direct services to low and moderate income persons. Appropriate activities include:

- * Negotiations with banks, insurance or pension funds, developers, and/or property owners;
- * Appraisals of land or buildings;
- * Financial analysis;
- * Preliminary architectural and engineering services;
- * Site evaluations, such as wetlands identification, building inspections, structural analysis, or general suitability analysis;
- * General development advice, including proposal review and assistance with negotiations;
- * Legal consultation.

In certain circumstances, the MHP Fund may determine that assistance can be provided by a professional MHP Fund staff member.

Who May Apply

Applicants are generally eligible to receive Technical Assistance once for a particular project. The following may apply:

- * Local Housing Partnerships;
- * Municipalities;
- * Community groups;

- * Non-profit corporations not eligible for assistance from CEDAC.

Program Financial Structure

The MHP Fund provides up to \$3,000 worth of professional assistance to eligible community projects. If a project moves forward, recipients are expected to repay the technical assistance provided by the MHP Fund from future mortgage proceeds. Once the technical assistance has been awarded, recipients will be expected to sign a letter agreeing to reimburse the MHP Fund if proceeds are available.

The MHP Fund contracts directly with professionals, and when a community or organization has applied and been awarded assistance, assigns an appropriate professional to work with the community. The MHP Fund is then billed directly for services rendered, following certification by the community that the work has been satisfactorily completed.

Review Standards

To be approved, proposals must demonstrate the following:

- * The level of need of funds;
- * The feasibility of the project;
- * The degree of leverage of private or public funds which could result from the project;
- * The level of community support for the project.

Application and Review Process

Applications are accepted at any time. Applicants submit the same application for Technical Assistance funds which is used for requesting Pre-Development funds. Application forms and detailed instructions are provided separately. As is the case with all of the MHP Fund's loan programs, it is recommended that prospective applicants first discuss their projects with an MHP Fund staff member, who will then direct the applicant to the fund most appropriate for the project.

The MHP Fund staff reviews the application and determines whether the scope of the project is appropriate for Technical Assistance, or whether the application should be considered for a Pre-Development loan. The MHP Fund staff also determine whether staff assistance would be appropriate for the project, in lieu of an outside professional, and if not, how much assistance will be offered to the applicant.

Funding decisions are made within two to three weeks of receipt of the application.

